MEMORANDUM

Date: August 27, 2020

Date Last Updated: August 15, 2019

To: **Chair and Board of Governors**

From: **President**

Subject: **MONITORING REPORT – EL-2e Financial Planning and Budgeting**

With respect to budget development, the President shall not cause or allow financial planning for any fiscal year or the remaining part of any fiscal year to: a) deviate materially from Board Ends priorities, b) risk financial jeopardy, or c) fail to be derived from a multi-year plan.

I hereby present the monitoring report on our Executive Limitations policy "Budget Development" according to the schedule set out. I certify that the information contained in this report is true and represents compliance with all aspects of the policy unless specifically stated otherwise.

The President shall not cause or allow financial planning for any fiscal year or the remaining part of any fiscal to:

a) "Deviate materially from Board Ends priorities".

I interpret the development of the annual budget on the basis of the approved college strategic plan, and the business plan that has been developed in support of the Board Ends, as evidence of the Ends expected.

Compliance will be demonstrated when Board Ends priorities are articulated in policies E1 to E3 (Ends Policy 1: Access and Success; Ends Policy 2: Community Prosperity; and Ends Policy 3: Institutional Excellence).

Evidence:

The projected 2020-21 budget of $97.6 million has been developed as a deficit budget, due to the COVID-19 pandemic and the significant reduction in enrolment, particularly international students, along with the increase in operating costs. The College is recommending the use of accumulated operating reserves as a revenue source for fiscal year 2020-21, if required, to eliminate the deficit, as per the MCU guidelines, consequently submitting a balanced budget.

The budget was developed in support of the Board Ends and Strategic Plan. See also Appendix A for a detailed breakdown of the operating budget.

	2017-18 Actual	2018-19 Actual	2019-20 Actual	2020-21 Projected Budget
Total Revenues	**$75,650,398**	**$104,682,011**	**$90,323,482**	**$86,710,131**
Total Expenses	**$74,227,562**	**$86,899,264**	**$85,501,718**	**$95,647,035**
Surplus (Deficiency)	**$1,422,836**	**$17,782,747**	**$4,821,764**	**$(8,936,905)**

The budgeted ending unrestricted and internally restricted reserves are sufficient to offset the operating deficit of $(8,936,905) which would result in a balanced budget for fiscal 2020-21.

I report compliance.

b) "Risk financial jeopardy."

I interpret "financial jeopardy" as insolvency, the inability to finance operations, risking an in-year deficit not covered by reserves, or making drastic short-term adjustments with negative long-term impact.

Evidence:

The 2020-21 operating budget is forecast as a deficit budget in the amount of $8,936,905, and reserves are sufficient to offset the planned deficit. The College will still be in an accumulated surplus position at the end of fiscal 2020-21, with the remaining reserves, and will not be in a deficit recovery plan position. See Appendix A and B for further details.

The following two metrics show positive results in managing the Colleges financial resources as reported on the 2020 Audited Financial Statements:

- **Annual Surplus/Deficit** (revenue - expenses): At March 31, 2020, the College reported a surplus of $4.8M, following a $17.8M surplus at March 31, 2019. This marks the fifth year in a row that the College achieved a year-end surplus.

- **Accumulated Surplus/Deficit** (General Unrestricted, Internally Restricted and Investment in Capital Assets): At March 31, 2020, the College reported a positive variance of $30.4 million compared to a $25.6million surplus at March 31, 2019, which is an increase of approximately $4.8 million.

I report compliance.

c) “Fail to be derived from the multi-year plan.”

I interpret “multi-year plan” as the 2020-21 budget year as well as forecast projections for 2021-22 and 2022-23.

Evidence:
The College three-year fiscal plan incorporates multi-year pandemic and standard operating assumptions on revenues, enrolment, wage rates, operating expenses, etc. Appendix C provides further detail on the Three-Year Financial Plan for the period 2020-21 to 2022-23. NOTE: Options to balance the budget for 2020-21 and future years are to be discussed with the Board at the in-camera session.

	2019-20 Actual	2020-21 Projected Budget	2021-22 Projected Budget	2022-23 Projected Budget
Total Revenues	**$90,323,482**	**$86,710,130**	**$84,821,678**	**$88,032,941**
Total Expenses	**$89,501,718**	**$95,647,035**	**$91,780,874**	**$93,374,041**
Surplus (Deficiency)	**$4,821,764**	**$(8,936,905)**	**$(6,959,196)**	**$(5,339,101)**

I report compliance.

The President shall not allow budgeting to:

1. **"Risk incurring those situations or conditions described as unacceptable in the Executive Limitation policy entitled 'Financial Condition & Activities' (EL2d)."**

I submit this is clear and requires no further interpretation.

Evidence:
The 2020-21 operating budget is forecast as a deficit budget based on major operational pressures due to the pandemic, which were presented to both the Audit Committee and the Board of Governors. Appendix B provides further information on the financial risk exposure used to develop the 2020-21 operating budget.

I report compliance.

2. **"Omit a) credible projection of revenues and expenditures, b) separation of capital and operational items, c) cash flow analysis, d) disclosure of planning assumptions:"**

I submit this is clear and requires no further interpretation.

Evidence:

a) **Credible projection of revenues and expenditures:**
The 2020-21 budget has been developed using credible assumptions for projected revenues and expenditures which are summarized in Appendix B.

b) **Separation of capital and operational items:**
The capital budget is a separate item from the operating budget. Please see the 2020-21 Business Plan for details of the Five-year Capital Expenditure Projections.

c) **Cash flow analysis:**
A summary of the projected changes reflected in the Budget Statement of Financial Position (Balance Sheet) at March 31, 2020 are listed in Appendix D.

d) **Disclosure of planning assumptions**:
Prior to the finalization of the operating budget, the 2020-21 budget planning assumptions were reviewed with the Audit Committee on June 1, 2020 and subsequently with the Board of Governors on June 12, 2020. See Appendix B.

I report compliance.

3. **"Omit an annual budget for Board Prerogatives during the year as set forth in the Governance Investment policy."**

I submit this is clear and requires no further interpretation.

Evidence:

These Board prerogatives have been budgeted at $57,418 for 2020-21 in keeping with historical expenditures.

I report compliance.

Respectfully submitted,
Kathleen Lynch,
President

Appendix A

The Confederation College of Applied Arts and Technology

Statement of Operations

For the year ended March 31	ACTUAL 2020	BUDGET **2021**
Revenue		
Post Secondary Grants	$ 32,040,764	**$ 32,006,461**
Other Provincial Grants	12,839,538	**12,405,086**
Tuition Fees - Domestic	6,872,386	**6,684,621**
Other Student Fees	4,386,796	**3,480,729**
Tuition Fees - International	18,561,610	**15,854,973**
Contracts and Programs	4,727,950	**6,815,340**
Ancillary Operations	3,040,112	**1,967,729**
Amortization of deferred capital contributions (Note 1	5,354,979	**5,695,570**
Other Revenue	2,499,347	**1,799,621**
	90,323,482	**86,710,131**
Expenses		
Full-time Salaries and Benefits	$ 41,237,260	**$ 44,792,532**
Part-Time Salaries and Benefits	12,343,307	**14,218,820**
Plant and Property Maintenance	3,380,708	**3,477,441**
Contract Services	9,539,563	**11,693,329**
Furniture & Equipment	497,092	**953,656**
Miscellaneous	1,089,850	**1,310,351**
Office and Instructional Supplies	6,077,243	**7,486,962**
Professional Dues & Audit Fees	887,457	**740,713**
Scholarships and Tuition Set-Aside	1,067,088	**1,325,391**
Telecommunications & Software	1,644,564	**1,600,428**
Travel and Professional Development	1,062,886	**866,752**
Depreciation	6,674,700	**7,180,662**
	85,501,718	**95,647,035**
Surplus/(Deficit) of revenue over expenses	$ 4,821,764	**$ (8,936,905)**

Appendix B

2020-2021 Budget Planning Assumptions

As a result of the COVID-19 pandemic and sweeping effect it has had on the economy and higher education institutes, the budget assumptions presented on March 10, 2020 required adjustment. As a result, Confederation College has worked to update all assumptions for the 2020/2021 fiscal year. These updated assumptions were presented to the Audit Committee on June 1, 2020. The current timeline to present the final budget is August 27, 2020.

Guiding Principles:

The following principles will *remain the over-arching principles* in updating the 2020-21 operating budget: Learners are at the centre of quality education.

College budgets should:

- reflect, align and support key priorities identified in the Strategic Plan and Annual Business Plan;
- define responsibility, accountability, and authority for achieving program and service outcomes;
- strive for cost savings, efficiencies, and shared program and service delivery models;
- consider Integrated Financial Risk Management implications (such as: demographic changes in domestic post-secondary enrolment; increased reliance on International student recruitment; infrastructure and technology renewal challenges; program and service sustainability);
- reflect changes in the fiscal environment that may impact the College (such as: labour market demand; political landscape, provincial funding and tuition framework; college sustainability)

2020-21 Operating Budget

Key planning assumptions:

- In a normal year, the Board must not project an annual budget deficit as per Ont. Reg. 34/03. However, should a deficit be projected, the college must follow the guidelines identified below.

Section from MCU Business Plan Requirements:

Deficit Recovery Plan

The board of governors is to ensure that the college balances its budget every year, as stipulated in Section 9 of O. Reg. 34/03.

If it appears that the college will not balance its annual budget and that an accumulated deficit is unavoidable in the opinion of the board, the approval of the Minister is required as stipulated in Section 9 of O. Reg. 34/03. A recovery plan covering the time period (normally two successive years) needed to eliminate an accumulated deficit is to be included along with the request as specified in the Minister's Binding Policy Directive Governance and Accountability Framework

An accumulated surplus/deficit is defined under this operating procedure to be the amount determined from the aggregate of the unrestricted net assets and internally restricted net assets balances (a positive amount indicates a surplus and a negative amount indicates a deficit) that appears or is expected to appear on the year-end financial statements, prepared in accordance with generally accepted accounting principles (GAAP).

Internally restricted net assets that are clearly identified in the financial statements as scholarships, bursaries, or student financial assistance are treated as net assets held for endowments and are not included in the determination of a surplus/deficit.

<u>Procedure to Obtain Minister's Approval</u>

1. The chair of the board of governors is to write to the Minister seeking approval for the college to budget and operate with an accumulated deficit for the fiscal year in question. The request for approval is to be accompanied by the business plan for the fiscal year and a recovery plan for eliminating the deficit.

2. College staff are to consult with ministry staff to seek guidance related to the development of the recovery plan.

3. The college is expected to undertake all necessary measures, as part of its recovery plan, to eliminate its accumulated deficit.

4. Upon receipt of written approval for budgeting with an accumulated deficit from the Minister, the college is to report back to the ministry during the deficit recovery period on a regular basis as outlined in the approval letter.

Major Assumptions:

COVID-19 Impacts:
The following are the key assumptions that will be factored into the revisions to the 2020-21 operating budget:

- The College administration has been monitoring the impact of the pandemic on our operations and community, and decisions have been guided by the provincial and local health authorities.
- Financial assumptions will require both the close monitoring and mitigation strategies, as the pandemic is still evolving globally.
- Management is in the process of developing an operating plan considering the following guidelines and restrictions:
  - Programing delivery and return to on-campus activities for students and staff will be subject to the guidance of public health authorities, to ensure their health and safety
  - Physical distancing will continue to be necessary
  - The College will likely need to minimize the number of people on campus for the fall term, and currently the summer term is planned to be delivered online with the exception of some labs.
  - Priority access to campus will be given to programs and courses with significant in-person components requiring access to the campus, and the balance may be either fully online or a hybrid delivery model.
  - Programs that do include in-person learning activities will be scheduled with appropriate physical distancing measures and/or required protective equipment.
  - Students who have been prevented from graduating, apprenticeship students and students from the winter and summer terms that were unable to complete their in-person requirements will be given priority to return to campus.,
  - Staff who cannot work from home and those who are essential to setting up the campus for limited face-to-face delivery will be given priority access to campus.
  - We will follow public health guidance and provincial protocols to safely provide on campus access.

- Program and enrollment planning is factoring in the following COVD-19 impacts:
  - Physical distancing and the impact it will have on class sizes for in-person delivery, and lab section sizes, which may result in a greater number of class sections with fewer students.
  - The new cohort for the summer intake of International only students was cancelled due to travel restrictions and closed borders. We also elected not to deliver spring/summer programming on line. This has reduced 2020-21 revenues by $2.7M, and 2021-22 revenues by $1.2M, for the 2nd year of programs, for this intake alone.

- A significant portion of the College's tuition revenues are derived from international enrolment. If the Canadian border remains closed, this will impact the College's ability to earn revenue from International enrolment as many students will choose to defer their studies until inclass sessions resume and travel restrictions are lifted.

- Prior to COVID, 34% of the students in the budget for the fall term were International, and 40% in the winter term, due to new winter program intakes.
  - International student applications and confirmations are also being impacted by lockdowns in their home country, India in particular, as 87% of the College's International students are from India. The extended lockdown in India is restricting their ability to obtain tuition finances required to submit VISA application, VISA application centers for processing remain closed, and travel restrictions and limited airline flights prohibit the student's ability to book travel arrangements.
  - The fall intake of the Aviation Flight program was cancelled due to the current suspension of all flight training and a number of fall program intakes were deferred or cancelled due to low enrolment.
  - Enrollment scenarios are in progress, reviewing the potential impact to both domestic and international students. In addition to the above mentioned influences, enrollment planning will also consider students who may wish to defer their attendance this year until in-person classes resume, and those with financial limitations.

- Additional financial impacts that are under review are:
  - Reduced revenues from ancillary operations such as:
    - Wellness Centre – remains closed until provincial restrictions are lifted,
    - Residence operations – loss of summer bookings, and reduced occupancy planned for the fall (50%), Spruce & Cedar leases to August 2020 were refunded April - August
    - Food service, Parking, and Book Store operations – not operational and will have reduced service level requirements in the fall and winter
    - Contract training revenue has been reduced due to some delays in delivering training due to social distancing measures

- Additional expenditures that are to be factored in are:
  - Increased level of security and cleaning services
  - Information technology resources to support students and staff online delivery
  - Personal protective equipment (PPE), protective barriers, cleaning supplies, sanitizing stations, renovations and additional signage
  - Workforce requirements for additional sections of classes, sanitizing of

classrooms, labs and equipment
- Expenditure savings are being reviewed for reduction in discretionary expenditures, such as travel, professional development, office supplies, instructional supplies
- Strategic initiatives will be reviewed and prioritized based on viability and contribution to the College
- Internal operating and capital budget funds will be reviewed again and vacancies will be maintained wherever possible without impacting the college strategic plan
- Strategic Mandate Agreement will be signed but implementation will be deferred by two years and could be extended until the ramifications of the pandemic on the sector and economy are more fully understood.

- Multiple scenarios are being generated at this time but the worst case scenario would be if no new international students enrol due to travel restrictions, delays in study permits etc. and domestic student enrolment drops by 20% or more. This would result in a significant loss to the college (initial estimate indicates that operating losses could be as high as $27 million).

Appendix C

Projected Three-Year Financial Plan: 2020-21 to 2021-22

	2019-20 Actual	2020-21 Projected Budget	2021-22 Projected Budget	2021-22 Projected Budget
REVENUE **Grant Revenue**	$44,880,302	$44,411,547	41,044,491	40,405,506
Tuition Revenue and Student Fees	$29,820,791	$26,020,323	26,004,157	29,280,561
All Other Revenue	$10,267,409	$10,582,691	11,582,690	11,582,690
Amortization	$5,354,979	$5,695,570	6,190,340	6,764,183
Total Revenues	**$90,323,482**	**$86,710,131**	**$84,821,678**	**$88,032,941**
EXPENSES **Salaries & Benefits**	$53,580,567	$59,011,352	58,693,969	59,867,848
Non-Labour Costs	$25,246,451	$29,455,022	25,302,021	25,302,021
Depreciation	$6,674,700	$7,180,662	7,784,885	8,202,172
Total Expenses	**$85,501,718**	**$95,647,036**	**$91,780,874**	**$93,372,041**
Surplus (Deficiency)	**$4,821,764**	**$ (8,936,905)**	**$ (6,959,196)**	**$ (5,339,101)**

Appendix D

Projected Cash Flow Changes – Statement of Financial Position

The Confederation College of Applied Arts and Technology
Statement of Financial Position

As at	Actual March 31, 2020	Change	Budget March 31, 2021
Assets			
Current			
Cash	$ 49,199,280	$ (24,223,823)	$ 24,975,457
Short-term investments	-	-	-
Accounts receivable	5,511,785	(1,066,076)	4,445,709
Inventory	688,534	(193,058)	495,476
Current portion of notes and long-term receivable	456,000	(15,602)	440,398
Grants receivable	1,846,600	(585,000)	1,261,600
Prepaid expenses	245,236	(27,138)	218,098
	57,947,435	(26,110,697)	31,836,738
Investment portfolio - endowments restricted	8,723,228	261,697	8,984,925
Notes and long-term receivable	6,877,548	(240,899)	6,636,649
Construction in progress	-	130,000	130,000
Capital assets	77,126,067	(3,880,662)	73,245,405
	$ 150,674,278	$ (29,840,561)	$ 120,833,716
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 17,370,094	$ (9,654,951)	$ 7,715,143
Deferred revenue	10,683,477	(3,033,230)	7,650,247
Vacation pay	3,133,348	(230,000)	2,903,348
Current portion of long-term debt	310,902	8,458	319,360
	31,497,821	(12,909,723)	18,588,097
Post-employment benefits and compensated absences	2,267,000	(72,000)	2,195,000
Deferred capital contributions	68,101,588	(4,495,570)	63,606,018
Deferred capital contributions - construction in progres	-	-	-
Long-term debt	9,742,557	(319,360)	9,423,197
	111,608,966	(17,796,653)	93,812,312
Net Assets			
Unrestricted			
Operating	$ 7,901,192	$ (9,465,460)	$ (1,564,268)
Post-employment benefits and compensated absence	(2,267,000)	(72,000)	(2,339,000)
Vacation Pay	(3,133,348)	(230,000)	(3,363,348)
	2,500,844	(9,767,460)	(7,266,616)
Invested in capital assets	6,586,941	830,557	7,417,498
Internally and externally restricted	21,388,163	(3,368,702)	18,019,461
Endowments restricted	8,589,364	261,697	8,851,061
	36,564,468	(2,276,448)	34,288,020
	39,065,312	(12,043,908)	27,021,404
	$ 150,674,278	$ (29,840,561)	$ 120,833,716

NOTES:

- Majority of changes due to:
    - Reduced cash balances due to lower international student enrolment, and increase in international student refunds of deposits on account at March 31, 2020
- Timing of capital project cash flows aligned with acquisition and project construction schedules
- MTCU operating cash flows received on a semi-monthly basis
- Accounts Receivable and Accounts Payable are monitored/managed on a monthly basis, and reduction in accounts payable is due to the prepaid international student balances that will be refunded, due to travel restrictions, and inability to attend in person.